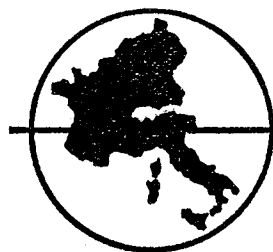


Community Topics

15

Initiative 1964



European community
information service

Initiative 1964

**for speeding up the implementation
of the Common Market**

**Text communicated by the Common Market Commission to the
Council of Ministers and the member Governments of the
European Community**

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The European Communities are today a proven success, as a result of the policy of European integration consistently applied by the six Member States and also of the work of the European institutions. The influence of the Communities is world-wide, and they have become the focus of the efforts being made to achieve the political unification of Europe. Yet it is recognized that they represent only a partial fulfilment of what is commonly known as the "political union" of Europe, the desire to see further progress towards which has revived strongly during the current year. Nonetheless, through the integration of economic and social policies (which, but for the existence of the Communities, would have remained the responsibility of the individual member states) it can be said that, in general terms, the "economic" Communities already represent the earliest stages of – and not just the preparation for – "political union"; in short, they are already a "political union for economic and social purposes".

It is now beyond question that the road towards a European federation lies through the present Communities. This means, on the one hand, that should these Communities fail, this generation will not see the formation of a specifically political community, and on the other that, so long as the present Communities maintain their momentum undiminished, the chance to build a real federation will remain.

It is vital to keep in mind this basic reality – the indissoluble internal unity of the European structure which it falls to our times to create – in order to decide on the proper course to follow in face of the new wave of impatience, disappointment and doubt among Europeans. The Commission, while not wishing to dramatize the present psychological *malaise*, nevertheless considers it a serious matter; it believes, however, that it can be transformed into a driving force for further European progress. The movement to integrate Europe has overcome greater setbacks than the present uncertainties. Indeed, by new and decisive initiatives, it has on every occasion more than made up for these reverses.

"Political union" in fact comprises two elements: it means extending the process of European unification beyond the integration of economic and social policies, and it means improving the constitutional structure of the European Communities.

The first involves merging defence policy, foreign policy (beyond the ground already covered by the common economic policies of the European Economic Community) and cultural policy. The Community institutions have no direct or formal powers in these matters, but because of the internal unity of European policy they have a legitimate interest in the new measures not causing distortion or damage to the European structure; and they also have responsibilities in this field. The measures taken must imply a forward, not a backward movement. The Commission has therefore not remained silent; it has urged that this extension of integration should take place rapidly, that what has already been achieved (the institutional shape and structure of the Communities) should remain intact, and that the experience gained should be turned to good account.

Experience has taught us that to have a chance of success any new structures should incorporate a genuine and independent embodiment of the Community interest, whether the existing Community institutions are made use of, or new institutions set up and their merger with the existing bodies left to later developments.

On the other hand, the second element in political union, i.e. improvement of the constitutional structure, directly concerns the European Communities

The first question is the merger of the Community Executives and of the Communities

**The Economic Communities
represent the earliest stages
of political union**

**The two elements of
political union**

themselves. The Commission has thrown all its weight behind the fulfilment of these plans. There are good prospects of some of its proposals being adopted, in particular the idea that the merging of the Communities should be guided by the experience which the single Executive will have gained from applying the three Community Treaties.

**Strengthening the powers of
the European Parliament**

The next question is a better distribution of powers between the various Community institutions. Here the most important problem is the strengthening of the European Parliament. Regarding the basis of its representative character, Article 138 of the Rome Treaty provides that the Parliament "shall draw up proposals for elections by direct universal suffrage in accordance with a uniform procedure in all Member States". This has been on the agenda of the Council of Ministers for years, but nothing has been done. The Parliament has also repeatedly discussed in detail the strengthening of its powers. Proposals and drafts exist; they concern the Parliament's share in the Community's legislative procedures, and especially its budgetary procedures (in this respect, the detailed proposals for the merger of the Executives supply further arguments).

One reason why the Parliament is making these efforts is the recognition that the sharing of democratic responsibility as laid down in the Rome Treaty – the participation by the Parliament in an advisory capacity in the legislative and budgetary powers exercised by the Council; control of the Community Executive (the initiator of legislation) by the European Parliament, including the right to force it to resign; control of the individual members of the Council by the Parliaments of the member countries – is becoming less satisfactory the deeper the Community's activities penetrate into fields hitherto the preserve of national legislatures, and the more the budgetary resources of the Community grow, particularly by the creation of special Community funds. The Commission has taken an active part in the discussion of all these questions; as far as the Treaty permits, it has taken every possible step to improve the situation and has supported the Parliament's efforts in these matters. The Commission's attitude will be equally resolute in the future.

Thus a great number of legitimate demands are at present awaiting fulfilment. Their number, and the general feeling of impatience, explain the unmistakable anxiety at present surrounding European policy, but they also show what deep roots the European cause has struck in the feelings and thoughts of Europeans. They are therefore no cause for pessimism. Up to now, indeed, during the short history of the process of European unification, the difficulties we have faced have merely served as a springboard for fresh resolve and constructive imagination.

**There should be no
'pre-conditions' for further
progress in economic
integration**

The Commission has therefore given its full support to all valid efforts to further political union, using its influence within the Community institutions and also trying to inform public opinion. It sees this task as the natural extension of the road marked out by the Treaties.

While acting with energy, it has nevertheless stressed that it would be illogical to make the further advance of economic integration dependent on the fulfilment of certain demands. Such "pre-conditional" tactics are bad. Leaving aside the legal argument that the Treaty of Rome provides completely for the conditions of its own application, and that none of these is in any way "pre-conditional", these tactics are dangerous because they would have a negative and delaying effect on the completion of the Communities,

which is the immediate need. Such tactics may only too easily become a convenient pretext for putting off necessary decisions.

To arrest the forward march of the Economic Community means not only condemning it to failure – for the Community cannot exist unless it is dynamic – but at the same time rejecting any chance of achieving “political union”. Certainly there is nothing automatic about such a final development, but progress on the road to economic integration induces and speeds a natural movement towards complete political union and itself provides increasingly cogent reasons for establishing such a union.

This is why in the present situation, although the prime need is to avoid narrowing our horizons and losing sight of our ultimate objectives, the first task of the European Economic Community is certainly to maintain its own vitality and momentum. It must give an example of tenacity, coolness and good sense which will steady the waverers and give them confidence.

The time is ripe for new initiatives

The Commission is therefore proposing a number of measures which seem ripe for decision and which would offer a striking demonstration of the continuing confidence of the Community. Admittedly, our methods of work consist of regular, sustained effort, but they do not exclude, on occasion, combined action on various fronts. Today the Commission feels that the time for this has come. While it presents a set of important suggestions, the Commission does not intend that they be regarded as in any way linked or interdependent; on the contrary, it considers that each of its suggestions should be examined separately and on its own merits.

Still less does this initiative of the Commission mean that its new proposals should have priority over others which the Commission has already made and on which no action has been taken. This applies particularly to the Commission's demand for the fixing of a common grain price, which it urgently reiterates. The failure of the Council to reach a decision on this problem gravely compromises the further development of the common agricultural policy, with the serious consequences which this implies for the progress of integration and the clarification of the Community's external relations. This absence of decision maintains political and economic divergences within the Community; it allows imbalance to persist between the agricultural and industrial spheres as regards the extent to which the isolated national economies of the Member States are opened up; it is an obstacle to the smooth progress of the present GATT negotiations, which are so important for the trade and general organization of the Atlantic world.

Consequently, the Commission submits the following proposals to the Council and to the member governments.

1 The customs union

Intra-Community duties to be completely abolished by January 1, 1967

Under the terms of the Treaty, customs duties between the member states were to be reduced by 30 per cent in the first four-year stage of the transition period and again by 30 per cent in the second stage, and were to be finally abolished by 1970. However, as soon as the first reduction was made, it became apparent that this timetable was too slow and that the economic development of the Community, the growing interpenetration of markets and the astonishingly rapid adaptation of the economy to the enlarged market not only justified, but also necessitated, a speed-up in the reduction in tariffs. On the initiative of the Commission the Governments of the member states therefore twice brought forward the dates of tariff cuts, by decisions on May 12, 1960, and May 15, 1962, with the result that the total reduction had already reached 60 per cent by July 1, 1963, i.e. after 5½ years instead of 8 years.

This development was a contributory factor in the 132 per cent increase in trade between member countries between 1958 and 1963; the individual increases in exports were 195 per cent for Italy, 172 per cent for France, 127 per cent for the Federal Republic of Germany, 114 per cent for Belgium and Luxembourg, and 98 per cent for the Netherlands.

Under the Treaty there must be further 10 per cent reductions in internal tariffs on January 1, 1965, and January 1, 1966. Thus, at the beginning of the third stage, 20 per cent of the basic duties would still remain. According to the Treaty, it is for the Council, on the basis of proposals from the Commission, to issue directives on the timing of the reductions still to be made.

The question arises whether it would not be appropriate to maintain the faster rate of tariff reduction until the elimination of intra-Community duties is complete.

In its Action Program of October 1962 (section 8) the Commission had already envisaged the complete abolition of customs duties by January 1, 1967.

The Commission considers that the following points argue in favour of taking a definite decision on this proposal now.

The Treaty lays down that the basis of the Community shall be a customs union, which should give the necessary impulse to the development of the economic union for which the Treaty also provides. The Treaty intentionally made the customs union one of the instruments of European union, and so far experience has confirmed this concept. The more customs duties disappear between the member countries, the greater is the incentive to unify economic and social policy and so promote European unification in general. The rapid completion of the customs union is therefore a sure and effective method of giving a new driving force to European integration.

In recent years the European economy has had to operate in conditions of uncertainty as to the customs charges to be taken into consideration in business and industrial plans. The time has come to put an end to this uncertainty and to lay down fixed schedules. The completion of the customs union early in the third stage of the transition period would be in every way consonant with the interest of the European economy.

Furthermore, the completion of the customs union at the beginning of 1967 would make it possible to introduce successively the reductions of intra-Community duties – which are inevitable in any case – and the reductions in the external tariff resulting from the GATT negotiations. There would thus be a possibility of staggering these reductions, taken as a whole, so that the economy could better absorb their total impact.

The Commission has proposed that the common grain price should come into effect on July 1, 1966, so that intra-Community levies on grains may be abolished and a common market established for a number of important farm products. Since, as the Council has decided in the meantime, the alignment of grain prices is to be a single-stage operation and since, as the Commission has pointed out on several occasions, it must be carried out in the near future, it would be wise to establish a common market in the industrial sector roughly at the same time. Free movement of goods between the member states can operate from 1967. For a large proportion of farm products it is the introduction – which in any case can no longer be deferred – of the common grain price which will permit free movement, whereas in the industrial sector it will be the elimination of the remaining intra-Community duties. These two operations, which can be planned and executed independently of each other, consequently converge towards the same objective, which is to promote the rapid completion of the economic union, after the beginning of the third stage of the transition period, on the basis of the achievement of free trade in goods between the member states.

The Commission is not unaware that the Community's economy is at present passing through a difficult phase. Although there can be no doubt that, speaking generally, a strengthening of competition within the Community will favour economic development combined with stability, it must nevertheless be recognized that any substantial reduction in customs duties at the beginning of 1965 will be more difficult to absorb for certain branches of industry in the member states. The Commission considers it desirable to make allowance for this when fixing the details of further tariff reductions.

The elimination of internal protection for agricultural products should from now on be synchronized with the pace proposed by the Commission for industrial products. But agricultural products have not been included – or have only been partially included – in the acceleration measures so far decided. The Commission therefore proposes, for the establishment of free movement in these products, a final date which is a little further off, i.e. January 1, 1968.

The common external tariff

The alignment of the duties applied by the member countries to products from non-member countries is now two-thirds complete. Only the third stage, which would finally establish the common external tariff, remains to be achieved.

The first move towards the common external tariff for industrial products was made on January 1, 1961, the second on July 1, 1963. If this pace is to be maintained, the third and last adjustment will have to take place at the beginning of 1966.

Deciding on this date is also necessary to prevent diversion of trade between the member countries. The two adjustments so far carried out have, in some circumstances, allowed considerable differences in the external protection of the member countries to continue, but the intra-Community duties still existing have prevented these differences from leading to diversions of trade. The third and last adjustment to the common customs tariff (after which the external protection of the member countries will be completely uniform) must therefore be carried out before intra-Community duties are completely abolished.

The third and final adjustment to the common customs tariff would give not only the European economy, but also our partners in the non-member countries, a clear picture of the European customs union which will confront them. In particular, this would be a great advantage for the Kennedy Round negotiations. After a decision on this tariff

adjustment, it would be possible to give our GATT partners a definite date after which they would benefit from the reductions in customs duties agreed to at the negotiations, rather than see only fractions of these reductions initially come into force – a state of affairs which was clearly a considerable impediment to the Dillon negotiations. The completion of the customs union would therefore benefit not only the Community's internal development but also its external relations and would favour the liberal policy aimed at in the Kennedy Round negotiations.

Proposals

- A. *On January 1, 1965, the member states should again reduce by 15 per cent their total customs charges in conformity with Article 14 (4) of the Treaty. On this date the customs duties would be reduced for each product by at least 10 per cent in relation to the basic duty. For Community products in respect of which application has been made before October 1, 1964, to have recourse to the safeguard clause, this reduction may be limited to 5 per cent.*
- B. *On January 1, 1966, the member states should again reduce the total customs charge by 15 per cent. On this occasion customs duties would again be reduced for each product by at least 10 per cent in relation to the basic duty.*
- C. *Before the member states introduce their adapted tariffs, they and the Commission should examine case by case any problems to which the application of the above measures would give rise in certain sectors of the Community economy.*
- D. *On January, 1, 1967, the remaining customs duties should be abolished.*
- E. *On January 1, 1966, the third and final adjustment towards the common external tariff should take place.*
- F. *As regards the products indicated in Annex II of the Treaty, including those coming under a common market organization, there should be a quicker abolition of customs duties and of the "fixed components" provided for in the regulation pursuant to Article 43.*
The customs duties and "fixed components" should be reduced to zero with effect from January 1, 1968.
On this date the common external tariff and the "fixed component" provided for under the regulations for the final stage should also be applied.

2 Establishment of Community customs legislation on trade with non-member countries

A customs union is essentially composed of two elements: a common tariff and common rules for its application.

The establishment and proper functioning of the customs union require that Community customs legislation should be laid down in the coming years so that the Community will have available the necessary customs machinery for the proper application of the common external tariff and the implementation of a common commercial policy towards non-member countries.

In a communication to the Council dated July 31, 1963, the Commission presented an action program for customs legislation. The first two parts of this program cover the whole complex of customs problems which are or will be involved in the European Economic Community's trade relations with the non-member and associated countries, particularly questions of origin, customs value, processing traffic, temporary admission, entrepôt trade, transit, etc. The Commission urgently requests that the appropriate departments of member Governments cooperate in aligning customs legislation so that the main problems are settled by the time the customs union is fully established.

As soon as possible, and without prejudice to any other action which it considers appropriate, the Commission will submit proposals concerning the definition of origin of goods; the application of anti-dumping and compensatory duties; rules for the definition of value in customs; the working-out of common arrangements for processing traffic; the unification of national provisions concerning free entry on economic grounds; bonded warehouses and free ports; the working out of a procedure for operating Community tariff quotas, and rules for the uniform application of the common external tariff.

3 Abolition of frontier controls over trade between the member countries

The aim of the Community is to establish a common market with similar characteristics to a domestic market, where goods circulate freely. This objective cannot be attained simply by abolishing customs duties and quotas. On the contrary, it is quite clear at the stage so far reached in the establishment of a customs union that there are still a great number of other measures impeding trade. In its Action Program of October 1962, the Commission maintained that the Community should in future pay more attention to the other indirect obstacles to the free movement of goods, which are becoming all the more obvious and significant as further progress is made in abolishing customs duties and quotas in the strict sense.

For the complete removal of controls at internal frontiers it is in particular essential :

- to abolish obstacles resulting from the disparity between the various national measures applied to imports (generally by customs officials, though the measures – concerned with public order, health protection, technical specifications, plant health, statistical returns, etc. – are not of a customs nature);
- to abolish recourse to Article 115 (due to differences in foreign-trade policy), which presupposes the implementation of a common commercial policy;
- to abolish fiscal controls after the harmonization of excise duties and indirect taxation;
- to abolish the system of compulsory licences and also purely administrative obstacles resulting from the fact that imports and exports of goods are subject to procedures determined by the individual member countries. These procedures give rise to formalities and controls which are superimposed on each other and impede intra-Community trade.

All these disparities and measures tend to produce the same effect, of hindering trade in goods within the Community. They are glaringly obvious in the controls to which goods are still subject today when crossing frontiers.

The Commission considers that these controls not only hamper the functioning of a true common market but that they also tend to obscure from the citizens of Europe the political significance of the undertaking embarked on by the six member Governments. As long as travellers must submit to customs controls at frontier crossings between the member countries, and lines of lorries have to wait for customs clearance, the citizens of the Community will retain the impression that nothing of significance has changed.

Without waiting for solutions which permit the simultaneous abolition of all the obstacles referred to, the Commission, after consultations with the national customs departments, will propose measures to ease frontier crossing as much as possible.

The Commission :

- A. *Proposes that the Council adopt a resolution abolishing by January 1, 1970, at the latest, all frontier controls over goods traded between member states;*
- B. *Will simplify to the maximum degree and as rapidly as possible, in pursuance of Article 10 of the Treaty, the formalities imposed on trade by easing to the fullest possible extent the system introduced six years ago for intra-Community trade;*
- C. *Will propose to the Council at an early date a new series of measures necessary to attain the objective set out in (A) above;*
- D. *Requests the Council to introduce, in advance of the complete establishment of the customs union, measures of foreign-trade policy leading to the abandonment of procedure under Article 115;*
- E. *Recalls the directive which it submitted to the Council on the harmonization of turnover taxes and stresses the importance of its adoption.*

4 Gradual achievement of a monetary union

On this subject the Commission's Action Program of October 1962, reads :

Section 128

"From the end of the transition period onwards, if not even earlier, economic union will involve fixed rates of exchange for the member countries' currencies, with only very narrow limits of movement from the parity level. Any major change in exchange rates would so much upset the trade of countries no longer protected by customs barriers, and, because of the guaranteed Community intervention price for grain and other basic agricultural products, would cause such sudden changes in prices of farm products and therefore in farm incomes also, that the Common Market itself could be imperilled.

"The fixing of exchange rates is the very essence of a monetary union for, when they are firmly guaranteed by appropriate institutions and methods, it will not matter to the citizens of any member state whether they hold assets in one particular Community currency or another. The progressive merging of short- and long-term economic policies will certainly help considerably in achieving this, but it would not be sufficient if it were unsupported by specific action in the monetary field."

Section 136

"An intergovernmental agreement should lay down now the extent of the obligations which each country would be prepared to accept for mutual aid under the Treaty, without such prior agreement in any way prejudging the question of whether a member state in difficulty fulfils the conditions under which aid is to be given. But, if an affirmative decision were given on this latter point, the maximum credits which member states had committed themselves to make available would be known in advance. These credits should represent a certain proportion of the gold and foreign-exchange reserves held by each of the Community Central Banks, so as to take into account changes which might occur in the international liquidity situation of any member state."

Section 138

"The establishment of a monetary union could become the objective of the third stage of the Common Market. The Community Ministers of Finance or of Economics, meeting in the Council, would decide on the conditions to be laid down at the appropriate time, the total value of the national budgets and of the Community budget, and the general conditions for financing them. The Council of Governors of Banks of Issue would become the central organ of a federal-type banking system."

The Commission considers that these aims have become even more pressing and should be examined in the light of experience and present possibilities. The interpenetration of markets which has meanwhile come about between the member countries makes progress in the field of monetary policy increasingly urgent.

The aim of the Community is not merely to expand trade between the member countries; it implies the merging of the six markets in a single internal market and the establishment of an economic union. It therefore appears essential to adapt the monetary policy of the Six to the degree of integration already attained in other fields.

The Commission will submit to the Council without delay proposals for the gradual introduction of a monetary union. The Monetary Committee of the EEC and its Committee of Central Bank Governors will be consulted in advance on these proposals.

5 Social policy

As the rate of tariff reduction is speeded up and the economies of the member countries confront each other more and more directly, further adjustments and adaptations will take place in the Community economic area. This being so, it is appropriate that these proposals should include a section on social matters. Here the Commission places the emphasis on two lines of action.

The first concerns a reform of the Social Fund. As indicated in the Action Program (section 77) the Commission has concluded from the experience of its early years "that the Fund should not merely be an organization for refunding member states' expenditure on retraining schemes, but that it should also be in a position to encourage the various countries to initiate schemes and carry out experiments in this field; in this way the Fund could fully achieve its purpose".

The Commission stresses the importance it attaches to such a revision which, as requested by the European Parliament and the Economic and Social Committee, will provide the Community with a flexible instrument serving to resolve problems in the field of occupational training, which are becoming increasingly acute as economic union is brought nearer. The Commission's proposals for the revision of Regulation No. 9 will be submitted to the Council before the end of the year.

The second line of action is of a more general nature. The Commission wishes to call the attention of the member Governments to the need to intensify the close collaboration provided for by Article 118 with a view to levelling upwards living and working conditions. The general balance sought by the Treaty makes it essential that substantial progress should be made in this field on the lines of the program of work submitted by the Commission to the six Governments. Such levelling upwards would, moreover, facilitate the attainment of economic union inasmuch as differences between national systems create disparities which affect the terms of competition or set up obstacles to trade.

Community Topics

An occasional series of documents on the current work of the three European Communities

1. **The Common Market 1960-1 (July 1961)** *out of print*
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